Economic Trends

Economy under pressure from low oil prices

Alberta's economy continues to adjust to low oil prices. The unemployment rate is at a 20-year high and job seekers have started moving to other provinces to find work. Slowing population and labour market woes are weighing on housing markets and consumer spending. Business sector activity is slowing, with weakness in the energy continuing to seep into manufacturing and construction. Oil production is expanding as years of oilsands investment continue to reap returns. This month's InFocus puts Alberta's recessions into context with large oil price declines since 1980.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	February	2,278	-0.9%
Unemployment Rate	February	7.9%	+2.5 p.p.
CPI Inflation (unadjusted)	February	1.4%	+0.4 p.p.
Retail Sales	January	$6.1 B	-2.2%
Housing Starts (annualized)	February	22,670	-47.3%
Rigs Drilling (unadjusted)	March	113	-46.6%
Manufacturing Shipments	January	$5.1 B	-13.2%
Exports (unadjusted)	January	$7.1 B	-22.7%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Population growth weakens

As of January 1, 2016, Alberta's population was at 4,231,959, up 1.7% from a year earlier. Despite leading the provinces, it was the slowest fourth quarter growth since 2011. The increase was supported by record setting fourth quarter net international migration, which added over 8,500 people, even with a net loss of 3,360 non-permanent residents. Natural increase also continued to support growth. Gains were tempered though, as net inter-provincial migration dipped into negative territory. The province saw net outflows of nearly 1,000 people to other provinces in the quarter, the first net outflow since 2009.

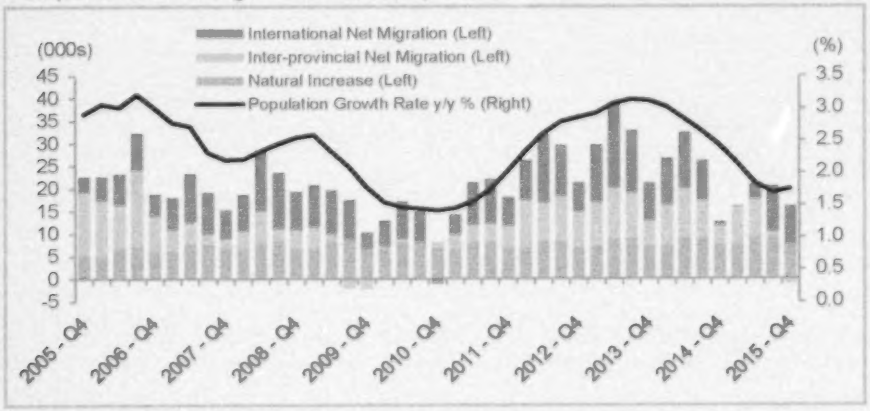
Labour market waning

Weakness continues to permeate the Alberta labour market. Although employment held steady in February, providing some reprieve from job losses, employment in the first two months of 2016 was down 1.2% compared with the same period in 2015. In February, the unemployment rate rose 20-year high of 7.9% and moved above the national average for the first time in 27 years. The number of regular Employment Insurance beneficiaries rose for the seventeenth straight month to 63,770 in January. The weakness in employment pushed average weekly earnings down 4.3% y/y in January to a level not seen since late 2013.

Housing loses steam

The Alberta housing market, weighed down by the deteriorating labour conditions and waning consumer confidence, has slowed. In February, activity slumped to a five-year low. Housing starts fell for the third consecutive month to 22,670 SAAR. Multi-family starts, which supported starts through 2015, have remained low since dropping off in December. Single-units continued to decline, falling to the lowest level since mid-2009. In the resale market, existing home sales, which remained weak for most of 2015, fell further and were 11%

Chart 1: Net-interprovincial migration turns negative
Components of change in Alberta's population



Sources: Statistics Canada

lower in the first two months of 2016. As sales declined faster than new listings, inventory levels continued to rise. The average length of time to clear resale inventory is at a 5.5 year high.

Consumers cut more spending

Falling earnings and employment are causing consumers to continue reining in spending. Retail sales fell in four of the last five months ending in January. Spending declines have extended far beyond discretionary items like new motor vehicles, with most non-discretionary goods posting declines as well. Total grocery store sales between August 2015 and January 2016 were $281 million (or 4.8%) lower than in the same period of 2014-15, despite higher food prices.

Alberta Business Sector

Oil prices improve

After falling to a twenty-five year low of US$26/bbl in mid-February, the price of WTI has since returned towards US$40/bbl. The recovery in oil prices was accompanied by speculation about Russia and some key OPEC members freezing production to support prices. This would help to relieve the supply glut that has caused a surge in global crude inventories. Prices have also been aided by continued declines in US production, which has fallen by almost 600,000 barrrels per day since June 2015. In part, the pick up in oil prices mirrors a similar recovery in equity markets, as fears over growth in China subsided and the US Federal Reserve expressed a more cautious approach to interest rate hikes.

Drilling activity depressed but bitumen production expands

The further decline in oil prices at the beginning of 2016 pushed oilwell drilling activity to historic lows. In what is typically the busiest drilling season in Alberta, metres drilled in January were down 44% from already depressed January 2015 levels. Conventional drilling was less than half what it was last year, which corresponded to a 16% y/y decline in conventional oil production. This was more than offset by an 8% y/y increase in bitumen and synthetic crude output. The long lead times in oil sands construction projects make oil sands production far less sensitive to price changes. As a result, overall oil production rose 3% y/y in January (Chart 2).

Machinery manufacturing continues to suffer

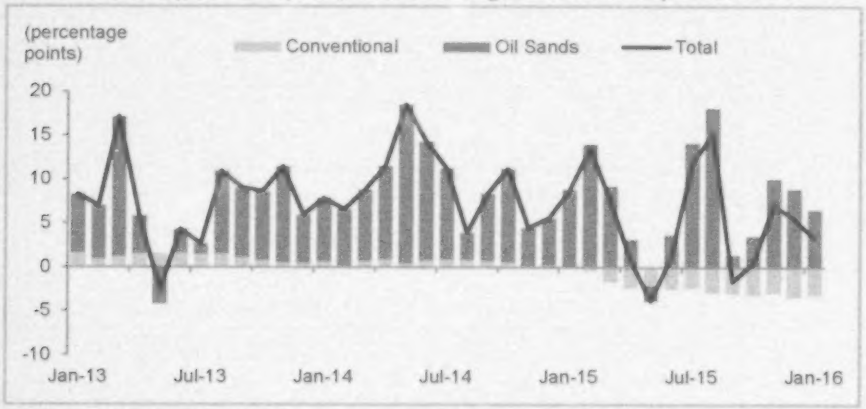
Manufacturing in the province continues to be dragged down by lower energy prices and activity. Alberta manufacturing sales totalled $5.1 billion in January, the lowest level in over 5 years. Demand for Alberta-made oil and gas field machinery has plummeted because of the collapse of energy investment across North America. Machinery sales fell to the lowest in over a decade, with exports of industrial machinery down 38% y/y. Petroleum and coal manfuacturing sales fell substantially below chemicals for the first time in almost a decade, and were down 20% from last year. Food manufacturing was one of few industries to see growth, with sales up 1.0%.

Construction sector slowing

Permits suggests that activitity in the construction sector is fading as activity slows and current projects wind down. Alberta municipalities issued $1.1 billion-worth of building permits in January, the lowest level since July 2012. Residential permits were responsible for most of the weakness, as soft labour markets weighed on demand for new housing. The surge in institutional and governmental building permits from 2015 appears to over, with January values returning to historic norms. This left non-residential permits well below the average over the last 12 months, despite a stabilization in commercial permits and an increase in industrial permits.

Chart 2: Oil sands production continues to expand

Contribution to year-over-year per cent change in Alberta oil production



Source: Alberta Energy Regulator

Global Economy

Canada's economy shows strength

Canada's economy got off to a much healthier start this year in contrast to the mild contraction at the outset of 2015. GDP grew by 0.6% month-over-month (m/m) in January, the largest monthly increase since July 2011. Goods-producing industries led the way, as durable-goods manufacturing jumped 2.6% from December, the largest monthly uptick since December 2006. Manufacturers of non-durable goods also had their strongest month since the end of 2014. The weak Loonie and robust US economic growth boosted exports.

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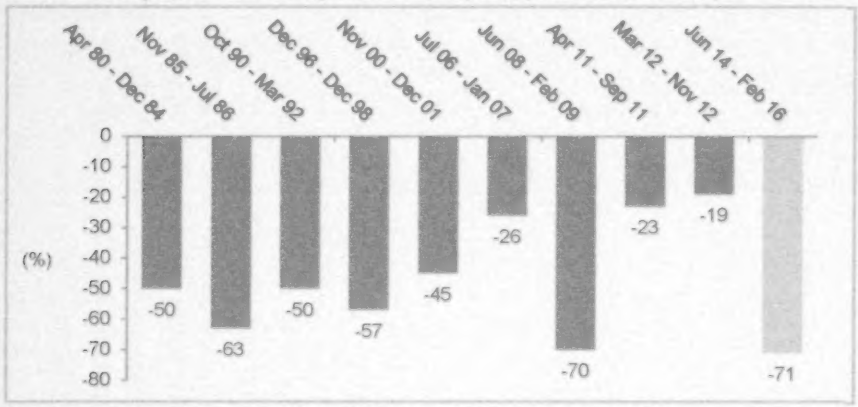
Current downturn in a historical context

The 2015-16 economic contraction in Alberta marks the fourth recession in the province since 1980 and the first back-to-back annual decline in real GDP since 1982-83. All four recessions were accompanied by a large decline in oil prices, but only the 1986 and the current one were caused directly by the price decline.

Alberta economy responds to oil prices

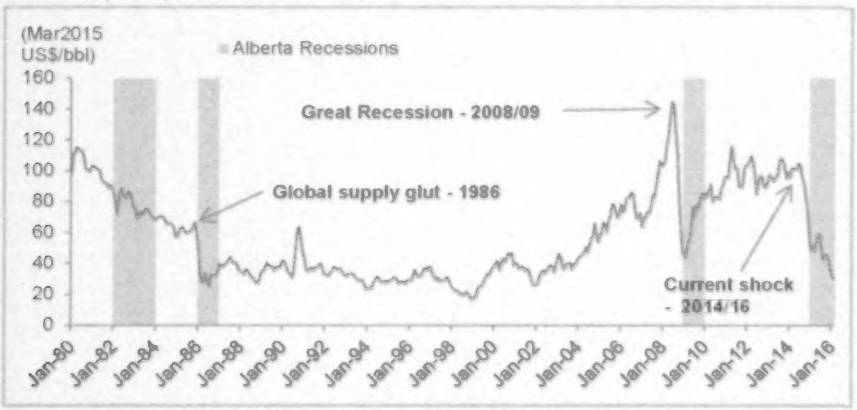
Alberta is a resource rich province, and the mining/oil and gas sector contributes significantly to the Alberta economy. When prices are strong Alberta's economy strengthens, but when prices decline, it comes under pressure. Every economic downturn in Alberta since 1980 has been accompanied by a large decline in oil prices (Chart 1).

Chart 1: Current oil price drop among deepest and longest on record
Peak-to-trough per cent change in real WTI price (Mar2015 $US/bbl)



Sources: WSJ, BLS, Haver Analytics, Alberta Treasury Board and Finance

Chart 2: Alberta economic downturns accompanied by oil price collapse
Real WTI price per barrel



Sources: WSJ, BLS, Haver Analytics, Alberta Treasury Board and Finance

Magnitude of oil price shocks

The current oil price decline is one of the largest on record, in both magnitude and duration (Chart 2). Starting in June 2014, the real price of oil tumbled 71%, from a monthly average of US$105/bbl to US$30/bbl in February 2016. To date, the price correction has been 20 months in duration. While prices have improved recently, price recovery remains uncertain. The duration of the price correction between 1980 and 1984 was much longer, as it happened more gradually; however, the real decline in prices was not as severe. This is in contrast to the price corrections in 1986 and 2009, which both saw real price declines of over 60%, but within a short period of 8 months. In 2009, oil prices recovered quickly. After 1986, though, prices remained subdued for the better part of the next 15 years.

1986 oil market dynamics redux

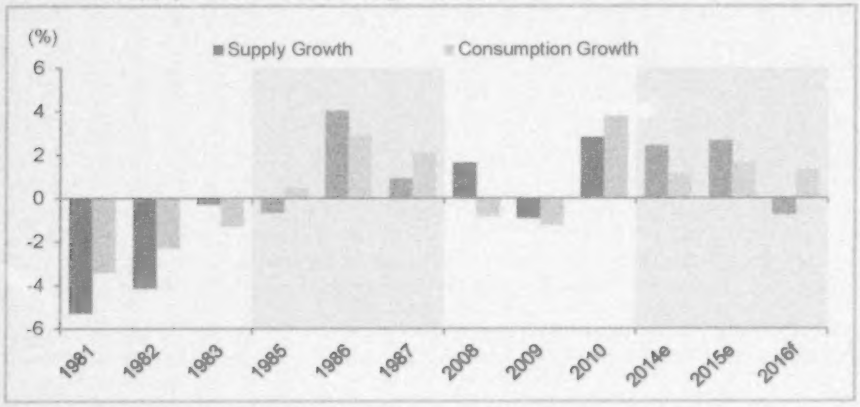
The oil market dynamics in the current recession are strikingly similar to those in 1986. In both periods, an oversupplied market and OPEC's decision not to defend prices led to a collapse in oil prices (Chart 3). Between 2009 and 2014, the US shale oil boom added 4.9 million barrels per day to global supply, three times more than OPEC. This was in addition to solid supply growth in other regions, including Canada, Russia and Brazil. With supply growth outpacing demand, and neither OPEC or non-OPEC producers willing to reduce production, the price of oil plummeted in late 2014. In the early 1980s, high prices incentivized development of high-cost deposits, but also led to declining demand. OPEC cut output in an attempt to prop up prices, leading to erosion of market share. Suddenly changing course, OPEC's output grew 13% in 1986 and precipitated an oil price crash.

Since the current and 1986 price declines were driven primarily by oil market dynamics, the economic contractions Alberta experienced were only shared with other oil-producing economies. In 1986, Alberta was the only Canadian province to experience a decline in real GDP. In both 1986 and 2015, global GDP grew by over 3%.

Oil price decline as a symptom of global economic downturn

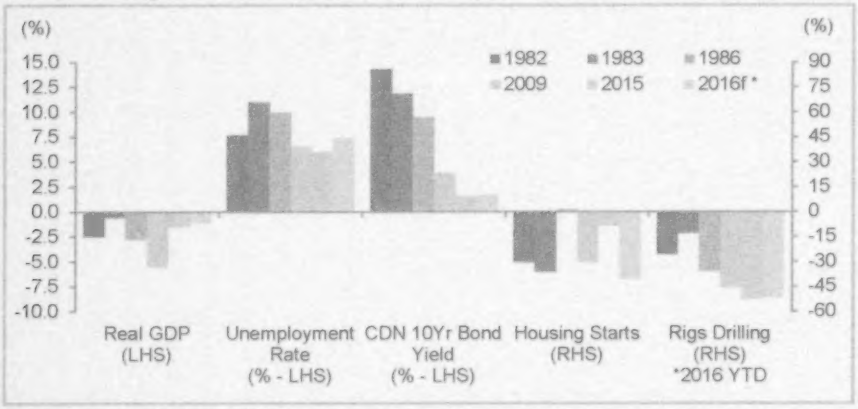
Conversely, the price corrections in the early 1980s and 2008-09 were driven more by global aggregate demand shocks and deteriorating macroeconomic conditions that led to shared downturns across provinces and countries. In 1982, global GDP growth slowed to 0.8% as central banks tightened monetary policy to fight spiraling inflation. Consequently, oil demand fell and took prices with it. A similar scenario unfolded in 2009 when the US housing bubble burst and widespread mortgage defaults ignited the Great Recession and global oil demand suffered. 1982 and 2009 are the only years since 1980 in which global GDP did not grow by at least 2.2%.

Chart 3: Oil supply growth outpacing consumption
Global oil supply and consumption growth rates



Sources: EIA, OPEC, Alberta Treasury Board and Finance

Chart 4: Comparing Alberta's economic downturns
Percent change and levels (where indicated) of select economic indicators



Sources: CAODC, CAPP, StatCan, BoC, CMHC, Alberta Treasury Board and Finance
* 2016 forecast based on 2015-16 Third Quarter Fiscal Update and Economic Statement

Prolonged weakness in 1980s

The economic conditions of the 1980s were especially frail compared to other periods. The period was characterized by high inflation and constrained monetary policy (Chart 4). Additionally, the 1982-83 downturn in Alberta was preceded by a decade-long construction boom, then bust, and exacerbated by the 1981 federal government's National Energy Program. As a result, the 1982-83 downturn bled into the 1986 contraction. Sustained lower oil prices over the remainder of the decade weighed on economic growth.

Shrinking energy investment

Following dramatic declines in the price of oil, regardless of the cause, activity and investment in Alberta's resource sector has contracted. Drilling activity has fallen off, employment has declined and investments have been delayed or cancelled. The 2009 and current recessions, though, have seen less impact on production than in the 1980s. As Alberta's oil sector has moved more towards oil sands development, production has become less responsive to oil price fluctuations, helping support real GDP and shorten recovery periods. Still, the oil and gas extraction and mining sector saw employment fall18,600 in 2015 and rigs drilling reach a 23-year low.

Low oil prices ripple through economy

In most recessions since 1980, the impact of lower oil prices has fed through the rest of Alberta's economy. Although the magnitude has differed, this was the case in the 1982-83, 2009 and current recessions. The 1986 recession was an exception. The decline in investment was limited to the energy and government sectors, as falling interest rates and strong growth outside Alberta supported other sectors.

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